

MINUTES

**MONTANA SENATE
56th LEGISLATURE - REGULAR SESSION**

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN GERRY DEVLIN**, on February 19, 1999 at 8:00 A.M., in Room 413/415 Capitol.

ROLL CALL

Members Present:

Sen. Gerry Devlin, Chairman (R)
Sen. Bob DePratu, Vice Chairman (R)
Sen. John C. Bohlinger (R)
Sen. Dorothy Eck (D)
Sen. E. P. "Pete" Ekegren (R)
Sen. Jon Ellingson (D)
Sen. Alvin Ellis Jr. (R)
Sen. Bill Glaser (R)
Sen. Barry "Spook" Stang (D)

Members Excused: None

Members Absent: None

Staff Present: Sandy Barnes, Committee Secretary
Lee Heiman, Legislative Branch

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: SB 449, 2/16/1999
Executive Action: None

HEARING ON SB 449

Sponsor: SENATOR BOB DEPRATU, SD 40, WHITEFISH

Proponents: Steve Turkiewicz, Montana Auto Dealers Association
Dean Roberts, Administrator, Motor Vehicle Division

Opponents: None

Opening Statement by Sponsor:

SEN. BOB DEPRATU, SD 40, Whitefish, explained that **SB 449** is an act adjusting the depreciation schedules used to determine the value of light trucks and sport utility vehicles for motor vehicle taxation. He said that vehicles used to be assessed on the NADA blue book, which would set the value of every vehicle, and which came out in January. **SEN. DEPRATU** said that that book generally reflects what the market was about three months previous to when it is received; in other words, a January book would actually reflect values from October of the previous year. **SEN. DEPRATU** said that what actually is the true value of a vehicle is the ACV, actual cash value, which is what a vehicle can be turned into cash for today. He said that is the real reflection of the market, even though the blue book might not agree with that.

SEN. DEPRATU said that determining the assessment of a vehicle on the depreciated value gives predictability and stability to the licensing of vehicles. He did say, however, that pickups and SUVs need some tweaking, and **SB 449** does that, starting at line 25, page 1, and brings them into a more accurate depreciated value.

Proponents' Testimony:

Steve Turkiewicz, Montana Auto Dealers Association, said that the schedule in **SB 449** actually reflects the values of these vehicles. He said this was a good bill, and urged do pass.

Dean Roberts, Administrator, Motor Vehicle Division, Department of Justice, said that 95% of the complaints about the cost of licensing came from owners of these types of vehicles. He agreed that there had been some unrealistic figures in the old table, and that the Department does support this reduction because it brings these vehicles more into line with what is actually happening to values.

Opponents' Testimony: None

Questions from Committee Members and Responses:

SEN. STANG asked what percent of vehicles light trucks and sport utility vehicles make up, and **Mr. Roberts** said they make up about a total of 50%, light trucks about 40%, and SUVs about 10%.

SEN. ELLINGSON asked how the figures in current law were derived, what the rationale was for those figures, and how the determination was made that these figures more accurately reflect

the market value, and **SEN. DEPRATU** said that the figures that are in current law were a compromise from the group which was working on this before. He said two years ago SUVs and pickups were holding their value. At that point there were times when you could buy a year-old SUV or pickup for more than it was selling for new, and there was the feeling that this was going to go on forever. They did not understand the volatility of the used car market, and it was basically an arbitrary decision based upon what the market was two years ago. The Department has gone back and researched what the book values would have been under '97 law, and then depreciated them down to more correctly reflect what that trend was in '97. He said the legislature will never be able to create a system that will be 100% correct for depreciation in any given year because of the whims of the public on what they like and what they don't like, gas prices, et cetera.

SEN. ELLINGSON asked if it would be possible to put into law a method that would accurately reflect the market as opposed to legislative decisions on what the market now reflects without having to look at it every two years. **SEN. DEPRATU** said that two years ago, public input was that they wanted to know if their license plates were not going to cost more next year. He said that under the old system, that could happen. The public wanted predictability and stability. He said that cars are a commodity, and the laws of supply and demand determine the value.

SEN. GLASER said that the Fiscal Note does not reflect **SB 260**, and will not reflect **SEN. DEVLIN'S** capping of the system, but if those are taken into consideration, the fiscal note drops from \$5 million to \$3 million, and then after the first year, when **SEN. DEVLIN'S** capping kicks in, that lost revenue stays the same. **SEN. DEPRATU** said that was correct.

SEN. DEVLIN asked if the bill that was passed two years ago was the work of the Revenue Oversight Committee, and **Mr. Roberts** said that was correct. He also added that part of the purpose of that bill was to make every single county whole. There was a dual effort, to make it revenue neutral totally, but also to make it revenue neutral to each county, so some of the categories across the vehicle realm got set based on that. He said, however, that it was out of the Revenue Oversight Committee, and it was about a three-year effort.

SEN. DEVLIN said that trucks were involved in the bill two years ago, and he asked whether truck values were figured into the revenue neutrality, and **Mr. Roberts** said that that was correct, the heavy trucks were also figured into this whole scheme to make it revenue neutral. **SEN. DEVLIN** asked if there was a little

impact as far as percentages go on automobile increases to make up the difference for the truck values that came in that bill, and **Mr. Roberts** said he was not sure if that was the case. He said the large trucks did take a reduction. **SEN. DEVLIN** asked if the percentages put in two years ago were an attempt to make up for that loss on the heavy trucks, and **Mr. Roberts** said he thought that was part of the overall scheme, but he did not know how much that was.

SEN. ELLINGSON said the Fiscal Note tells what the difference is going to be in Fiscal Year 2000 both on the state and on a statewide basis, and he wondered what the collections are going to be in Fiscal Year 1999 so that a comparison could be made as to whether we may be receiving less money under this bill but more money than is being received in Fiscal Year 1999, and **SEN. DEPRATU** said he could not answer that, but he felt it would be about even. **SEN. ELLINGSON** asked if **SEN. DEPRATU** felt that was a pretty significant point if what is being said is that less revenues would be received than in 1999, and **SEN. DEPRATU** said that was probably correct.

SEN. ECK asked, with **SB 260** passed out of committee, whether it might be a good idea to get a combined Fiscal Note. She also wondered if it would be possible to go back and compare it to what the cities, counties and General Fund were getting before the changes were made in 1997, and **Mr. Smith** said that it was possible to get the combined impacts.

CHAIRMAN DEVLIN asked **Mr. Roberts** whether he would have those numbers, and he replied that with **SB 57**, the counties actually broke even comparing 1995 or 1996 to calendar year 1997 revenues. In calendar year 1998, counties broke about even, but the history of motor vehicle taxes has been about a 3% to 5% growth because of the MSRP continuing to go up under the system. He said **SB 57** caused them to break about even because of the heavy truck tax that was lowered, and the equipment that was on those trucks was no longer taxed.

CHAIRMAN DEVLIN then asked if the increase in values for automobiles and light trucks gave the counties a windfall, and **Mr. Roberts** said that automobiles and light trucks, because of **SB 57**, would have given them an increase, and as long as the present system is used, the counties would see an increase of 3% to 5% every year because of the MSRP and because people are buying more vehicles.

SEN. GLASER said if **SB 260**, combined with **SEN. DEVLIN'S** bill, passes, that index is to the total value on the 1.4% only, not the local option, so the counties would get an increase because

of the increase in the value of automobiles on the local option, but they would not see an increase on the other, and **Mr. Roberts** said that was correct.

SEN. BOHLINGER referred to an editorial in the Independent Record dealing with the efforts to provide some tax breaks to car owners in terms of taxes they pay on licenses, and it quoted **SEN.**

HALLIGAN as saying that it looks as though the legislature is backing Montana into a need for a sales tax to replace lost revenues, and he asked if **SEN. DEPRATU** perceived it that way.

SEN. DEPRATU said he believes that the tax cuts that have been worked on are sincere efforts to give honest tax cuts, and he believes that there is a sincere effort to reduce property taxes, and his vision is that all three of these can be made to work, but that he sees these as separate issues.

SEN. ECK asked if all the tax reductions that will affect cities, counties and schools means that we are not going to spend money on schools, and **SEN. DEPRATU** said that he didn't believe that it means that. He said that he believes that the legislature can look at tax savings in all sections of the government and still fund schools properly.

Closing by Sponsor:

SEN. DEPRATU said he felt the committee had had a good discussion on this matter. He thanked the committee for their thoughtful consideration and their questions, and urged a do pass.

CHAIRMAN DEVLIN asked **Mr. Roberts** to provide the committee with some of the information that had been discussed, especially the actual taxes paid in 1995, 1996, 1997 and 1998 on light vehicles and all together.

ADJOURNMENT

Adjournment: 8:35 A.M.

SEN. GERRY DEVLIN, Chairman

SANDY BARNES, Secretary

GD/SB

EXHIBIT (tas41aad)